

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFOR



**FILED**

9-23-16  
04:59 PM

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U-60-W), a California corporation, for an order (1) authorizing it to increase rates for water service by \$94,838,100 or 16.5% in test year 2017, (2) authorizing it to increase rates by \$22,959,600 or 3.4% on January 1, 2018, and \$22,588,200 or 3.3% on January 1, 2019, in accordance with the Rate Case Plan, and (3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 15-07-015

Filed July 9, 2015

**MOTION OF CALIFORNIA WATER SERVICE COMPANY (U-60-W)  
FOR INTERIM RATES**

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September 23, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U-60-W), a California corporation, for an order (1) authorizing it to increase rates for water service by \$94,838,100 or 16.5% in test year 2017, (2) authorizing it to increase rates by \$22,959,600 or 3.4% on January 1, 2018, and \$22,588,200 or 3.3% on January 1, 2019, in accordance with the Rate Case Plan, and (3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

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**I. INTRODUCTION**

Pursuant to Rule 11 of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), the Commission's decision adopting a Rate Case Plan ("RCP") for Class A water utilities, D.07-05-062, California Water Service Company (U-60-W) ("Cal Water") respectfully requests that the Commission adopt interim rates effective January 1, 2017 pursuant to Public Utilities Code ("PU Code") § 455.2.<sup>1</sup>

Section 455.2 provides that large water companies can file tariffs implementing interim rates in a general rate case ("GRC") if the Commission does not issue a final decision effective on the first day of the first test year. Because there is a possibility that the Commission may not issue a final decision on Cal Water's pending GRC

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<sup>1</sup> In an August 17, 2016 telephonic Status Conference, ALJ Burcham established the deadline of September 16<sup>th</sup> for Cal Water's Motion for Interim Rates. As explained in a separate motion being filed concurrently requesting that the Commission accept this late-filed document, Cal Water mistakenly believed that the Motion for Interim Rates was due today, September 23<sup>rd</sup>, and did not discover this error until today.

application in time for rates to become effective by January 1, 2017, which is the first day of the first test year, Cal Water requests that the Commission allow Cal Water to continue the existing rates in its 23 districts as of December 31, 2016 as interim rates beginning January 1, 2017, with a later true-up to the final rates adopted in this proceeding via a 2015 Interim Rate Memorandum Account (“2015 IRMA”), and allow sub-accounts in the 2015 IRMA (and their related mechanisms) as described below.

## **II. DISCUSSION**

### **A. Proposed Role of the 2015 Interim Rate Memorandum Account**

Cal Water proposes that the Commission authorize the continuation of rates in effect on December 31, 2016 to continue as “Interim Rates” beginning January 1, 2017. Cal Water does not propose any change in those rates associated with the change in legal status from adopted rates to “interim” rates. Cal Water also requests authorization to open a memorandum account entitled a “2015 GRC Interim Rate Memorandum Account” or “2015 IRMA.”

The 2015 IRMA would track the difference between the rates billed to customers between 1/1/17 and the date that new rates are implemented (“Interim Period”). After the Commission issues a decision with new rates, Cal Water would submit an advice letter to the Water Division seeking authority to modify its tariff to reflect the new rates, and would specify the effective date of the modified tariff. The effective date of the tariff with the new rates would trigger the end point of the “Interim Period.”

In addition, the 2015 IRMA would reflect the proposals in the Proposed Settlement Agreement to open or modify several memorandum or balancing accounts by including a “sub-account” for the following: Conservation Expense Balancing Account (Proposed Preliminary Statement Z3), Pension Cost Balancing Account (Proposed Preliminary Statement AA3), the Health Cost Balancing Account (Proposed Preliminary Statement AB3), the TCP Memorandum Account (Proposed Preliminary Statement W)

and the Chromium-6 Memorandum Account (Modified Preliminary Statement AI).<sup>2</sup> These accounts allow Cal Water to track credits and debits related to certain activities, the initiation or continuation of which are important to both the company and its customers. Authorizing these sub-accounts in the 2015 IRMA does not and is not intended to prejudice the Commission's later disposition of the balances.

## **B. Mechanics of the 2015 Interim Rate Memo Account**

If the Commission adopts Cal Water's proposal, Cal Water would file another advice letter to address the balances tracked in the 2015 IRMA and "true up" the Interim Rates to the final rates. The 2015 IRMA would consist of the following components:

1. For each ratemaking area, the 2015 IRMA would track the difference between revenue received during the Interim Period, and the revenue Cal Water would have received had the final rates been in effect during the Interim Period.
2. For each ratemaking area, there would also be sub-accounts for the new proposed balancing and memo accounts listed above, as well as for the Low-Income Ratepayer Assistance and Rate Support Fund programs, including the Redwood Valley District RSF subsidy.
3. If the Commission authorizes the new balancing and memo accounts as requested in the Proposed Settlement Agreement, the balance in each sub-account would be transferred to the appropriate authorized balancing or memorandum account.
4. For the Low-Income Ratepayer Assistance and Rate Support Fund programs, the sub-accounts would track the difference between the benefits and surcharges in effect during the Interim Period, and the benefits that would have been provided if the modifications to the programs described in the Proposed Settlement Agreement had been in effect during the Interim Period. Cal Water proposes the mechanisms specified below for the true-up for these two programs.

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<sup>2</sup> The current preliminary statement for the Chromium-6 Memorandum Account could be interpreted as prohibiting the tracking of certain costs after 12/31/16. The Proposed Agreement would allow the continued tracking of such costs.

### C. Proposed LIRA Mechanism for the Interim Rate True-Up

After January 1, 2017, during the period that Interim Rates are in effect, neither the LIRA discount nor the LIRA surcharges would change. Accordingly, the LIRA discount would continue to be 50% of the service charge (up to a maximum of \$18 per month in non-RSF areas, and \$30 per month in RSF areas),<sup>3</sup> as approved by D.14-08-011, and the ongoing LIRA surcharges for metered and flat customers would be those in effect as of December 31, 2016.<sup>4</sup>

*New LIRA Cap:* In the Proposed Agreement, the cap on the monthly LIRA discount is increased to \$48. If the new rates adopted by the Commission in this proceeding include this modification, the new rates that would be implemented would include the newly-adopted cap on the LIRA credit.

*Retroactive LIRA Offset:* As part of the calculation to true up Interim Rates, LIRA customers would receive a Retroactive LIRA Offset (“Retro LIRA Offset”). This Retro LIRA Offset would be district-specific based on the individual district’s adopted customer service charge and LIRA cap. The Retro LIRA Offset would be calculated as follows:

- $\text{Retro LIRA Offset} = (\text{new LIRA discount} - \text{old LIRA discount}) \times (\text{number of months the Interim Rates were in effect})$

The Retro LIRA Offset would be applied to LIRA customers’ bills by using a Monthly LIRA Adjustment that spreads the Retro LIRA Offset onto bills over the same period of time that the Commission authorizes charges to true up the Interim Rates. For each billing period, the Monthly LIRA Adjustment would only be applied to customers who are in the LIRA program during that billing period, regardless of whether they were LIRA customers when Interim Rates were in effect. Similarly, it would not be applied to

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<sup>3</sup> There is also a LIRA discount for qualified non-profit group living facilities, qualified agricultural employee housing facilities, and migrant farm worker housing centers, in the amount of \$20 per month. This would not change as a result of the Agreement.

<sup>4</sup> Fire services customers are currently exempt and would continue to be exempt from the LIRA surcharge under the Proposed Agreement.

customers who are no longer LIRA customers as of the effective date of the Retro LIRA Offset.

- Example 1: assume an old LIRA discount of \$30.00 per month, a new LIRA discount of \$48.00 per month, three months in which Interim Rates were in effect, and a Commission decision allowing Cal Water to collect the retroactive portion of approved rates over the subsequent twelve months.
  - Retro LIRA Offset =  $(\$48.00 - \$30.00) \times 3 \text{ months} = \$54$
  - Retro LIRA Offset Monthly Adjustment =  $\$54.00 / 12 \text{ months} = \underline{\$4.50 \text{ credit}}$  per month for 12 months
- Example 2: assume an old LIRA discount of \$30.00 per month, a new LIRA discount of \$18.00 per month, three months in which Interim Rates were in effect, and a Commission decision allowing Cal Water to collect the retroactive portion of approved rates over the subsequent twelve months.
  - Retro LIRA Offset =  $(\$18.00 - \$30.00) \times 3 \text{ months} = (\$36)$
  - Retro LIRA Offset Monthly Adjustment =  $\$36.00 / 12 \text{ months} = \underline{\$3.00 \text{ charge}}$  per month for 12 months

*Recovery of Retro LIRA Offsets:* After a final decision in this proceeding authorizing new rates, when Cal Water files the advice letter to amortize the balance in the 2015 IRMA, Cal Water would make available all accounting entries tracked in the memorandum account. These balances would be subject to Commission review. To fund the LIRA amounts provided by the Retro LIRA Offset, Cal Water would calculate the total dollar amount of the Retro LIRA Offset using the number of customers enrolled in the LIRA program, by district, at the time Cal Water files the advice Letter to true up interim rates. Once the Commission has reviewed and approved these balances, rather than implementing an additional LIRA Surcharge, Cal Water would transfer the balance from the 2015 IRMA to the LIRA Balancing Account, and true up the LIRA Balancing Account on an annual basis according to the true-up mechanism adopted for that balancing account.

#### **D. Proposed Rate Support Fund Mechanism for the Interim Rate True-Up**

After January 1, 2017, during the period that Interim Rates are in effect, the current RSF discounts would continue to be applied to the current RSF Districts.<sup>5</sup> Similarly, the RSF program will continue to be funded by a surcharge on all customers except LIRA customers located in RSF Districts.

*Modified RSF Program:* In the Proposed Agreement, the RSF program would be scaled back so that only customers in the Kern River Valley District receive RSF credits on their bills, and an annual subsidy from the RSF program would be embedded in the rates of Redwood Valley District customers. If the new rates adopted by the Commission in this proceeding include the modified RSF program, the new rates that would be implemented would reflect the modified RSF program.

*Retroactive RSF Offset:* As part of the calculation to true up Interim Rates, active customers in the Kern River Valley and Redwood Valley Districts would receive a Retroactive RSF Offset ("Retro RSF Offset"). The Retro RSF Offset would be tailored to reflect the modified RSF program.

- The Retro RSF Offset for Kern River Valley customers = ((new quantity rate discount) – (old quantity rate discount)) x (average customer usage per month; not exceeding CCF cap) x (number of months and partial months which the Interim Rates were in effect)

The Retro RSF Offset for Redwood Valley customers needs to be calculated for each of the Redwood Valley service areas (Coast Springs, Unified, and Lucerne) separately.

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<sup>5</sup> Fire services customers are currently exempt from both the RSF credit and the RSF surcharge, and would continue to be exempt under the Proposed Agreement.

- Retro RSF Offset for Redwood Valley customers = ((Total Actual RSF Subsidy per service area) – (Total Embedded RSF Subsidy per service area)) / (Total Sales in that service area during the period Interim Rates were in effect)
- Total Actual RSF Subsidy per service area = the total amount of RSF credits given to Redwood Valley District customers in that service area during the Interim Period
- Total Embedded RSF Subsidy = the total of RSF amounts embedded in the rates that would have been in effect for Redwood Valley District customers in each of the service areas during the Interim Period. To calculate this amount, divide the total annual RSF subsidy per Redwood Valley service area from the settlement agreement by 12 to obtain a monthly embedded RSF subsidy. Multiple this monthly embedded RSF subsidy by the number of months in the Interim Period to calculate the Total Embedded RSF Subsidy.
- The difference between the Total Embedded RSF Subsidy per service area and the Total Actual RSF Subsidy per service area is the Total RSF Offset which is the amount to be credited or surcharged to Redwood Valley customers in each of the service areas.
- To calculate the RSF Offset per CCF divide the Total RSF Offset by total actual sales during the Interim Period in each service area to obtain a surcharge or surcredit per CCF applied to the future usage of customers in that service area.
  - The Retro RSF Offset would be applied to RSF customers' bills by using a Monthly RSF Adjustment that spreads the Retro RSF Offset onto bills over the same period of time that the Commission authorizes charges to true up the Interim Rates. For each billing period, the Monthly RSF Adjustment would only be applied to customers who are active during that billing period.

*Recovery of Retro RSF Offset:* After a final decision in this proceeding authorizing new rates, when Cal Water files the advice letter to amortize the balance in the 2015 IRMA, Cal Water will make available all accounting entries tracked in the memorandum account. These balances are subject to Commission review. To fund the amount of the Retro RSF Offset, Cal Water will calculate the total dollar amount of the Retro RSF Offset at the time Cal Water files the Advice Letter to true up interim rates. Once the



Commission has reviewed and approved these balances, rather than implementing an additional RSF surcharge, Cal Water will transfer the balance from the 2015 IRMA to the RSF Balancing Account, and calculate a new RSF surcharge to replace the existing RSF surcharge-

### **III. CONCLUSION**

Cal Water requests that the Commission authorize interim rate relief as described above.

CALIFORNIA WATER SERVICE COMPANY

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Dated: September 23, 2016